Globalization and its discontents

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ABSTRACT (ABSTRACT)

So, do we abandon economic globalization? Stiglitz notes that it is not helping the world's poor or the environment -- "poverty has soared as incomes have plummeted" (p. 214) -- and he understands the anger of people against the international agencies. But, at the same time, he argues that globalization has brought many benefits, not least the amazing economic growth of the East Asian region, and so to abandon it is neither feasible nor desirable. But globalization needs to be given a human face, to demonstrate a focus on the social consequences of economic policies, to be more open and transparent, and to recognize that there is not just one (US) market model. On this score, Stiglitz actually offers a series of detailed prescriptions for reform of the governance and policies of the international economic agencies which are too detailed to outline here. These prescriptions make sense to me, although a distinguished IMF economist has referred to them as "at best, highly controversial, at worst, snake oil."(1) Stiglitz is controversial, no doubt, and not least for criticizing named officials, some of whom he must have known well. But my only criticism, based on a historical study of international debt crisis management, is that he never mentions the lengthy history of western financial management of "lesser" nations. Yet, in 1904, Theodore Roosevelt formulated a Corollary to the Munroe doctrine aimed at Latin America, noting that "if a nation shows that it knows how to act with decency in industrial and political matters, if it keeps order and pays its obligations, it need not fear inference from the United States," but then went on to argue that brutal wrongdoing or impotence [read financial impotence] could require US intervention.(2) This Corollary was praised by foreign investors in both the US and Europe, and has powerful parallels with the blame which Stiglitz suggests that the IMF unfairly turned on East Asian countries for their "rotten" institutions and corrupt governments during the East Asian crisis. Likewise, American "dollar diplomacy" between 1900 and 1930, outlined in Emily Rosenberg's recent book, had powerful elements of financial imperialism aimed, not least, at Latin America.(3) With such a long history of financial intervention, no wonder Stiglitz has become something of a sainted guru south of the US border.

FULL TEXT

Joseph Stiglitz, New York: W. W. Norton and Co., 2002, 282 pp.

Joseph Stiglitz is currently professor of economics at Columbia. He was chairman of the Council of Economic Advisors in the Clinton administration between 1993 and 1997, and senior vice-president and chief economist of the World Bank between 1997 and 2000. In 2001, he shared the 2001 Nobel Prize for Economic Science. On the surface then, he has all the credentials of an American establishment-figure in the sphere of global economic policy. However, he was recently spokesman for several hundred economists who collectively condemned the Bush administration's latest tax cuts. And, as this event -- and this book -- indicate, his vast experience with the economics of globalization has cultivated a strong sympathy for the world's economically distressed nations and peoples. His radicalization is fairly recent, and in sharp contrast to the fundamental doctrines which underlie the current policies of the international economic agencies, notably the International Monetary Fund which, along with the World Bank, which originated in the Bretton Woods conference in 1944.

It follows that this book is devoted largely to a condemnation of the ideologies and policies of the IMF since the 1980's, and also, in some measure, of the World Bank and the World Trade Organization (WTO) which was created in 1995 to govern international financial relations. Stiglitz notes that the original purpose of the IMF was to prevent another global depression, but that the goals of all these institutions became coopted during the 1980's by free market economics. They became "missionary institutions," part of a new "Washington Consensus" between the IMF, World Bank and US Treasury about the "right" policies for developing countries, and countries in economic crisis. system that would reinforce income differentials among wage earners and preferred instead to address benefit inadequacies within the structure of the existing pension system. The deadlock resulted in the expansion of the basic pension, the introduction of the ATP, and increased take-up rates for individual private pensions.

Danish social democratic attempts to introduce public supplementary pensions were a notable failure. The LO campaigned to introduce a Swedish-style ATP in the early 1960s, but this resulted only in watered down legislation passed by the Social Democratic coalition in 1964. Unable to legislate substantial public supplementary pensions, the government opted for the small ATP and improvements in the basic pension in 1964 (see above). The Social Democrats' task was surely made more difficult by the cumulative impact of tax incentives for private pensions passed earlier. Unlike Swedish social democrats, the Danes had no formula for attracting the middle classes to their political project via public, supplementary pensions. The ATP provides a flat rate benefit based on previous hours worked rather than income. Only wage earners pay contributions, and despite the small size of this program, accumulated assets equal more than 19% of GDP.

For many low wage earners, the basic pension and the modest ATP benefits provided adequate pension coverage. In contrast, higher income earners, like the metalworkers, experienced a significant drop in income after retirement because of the inadequacy of the basic pension and ATP in relation to previous wages. It was precisely this group that led the effort to improve earnings related pension coverage among private sector workers. However, the metalworkers would have to wait much longer than their counterparts in the public sector.

The vacuum left by the failure of ATP has been filled with a variety of labour market related pensions. In the early 1960s, when the political establishment could not agree on the introduction of supplementary pensions, such a scheme was introduced for wage earners in the public sector. As the welfare state expanded, supplementary pensions for teachers, nurses, and other professionals were a way to enhance the attractiveness of public sector employment. According to Ploug (2001), this move set a decisive precedent for the rest of the labour market twenty years later.

By the 1980s, the Social Democrats and liberals had changed their positions regarding occupational pensions. One important economic factor was persistent deficits on the current account, caused by Denmark's low savings rate (among other things). The accumulation of pension savings was one way to address this. Another contributing factor was the demands of some LO unions for improved supplementary pension coverage, particularly the Metalworkers Union. At the time, however, wage bargaining negotiations were centralized, and this precluded the Metalworkers and other unions from negotiating supplementary Swiss bank accounts within a few days; yet, according to Stiglitz, IMF officials denied that it was actually "their loans" being exported. Between 1990-1999, GDP in Russia fell by 54 percent, much of the population was essentially pauperized whilst the oligarchy prospered. So who lost Russia? In part, Stiglitz implies that it was Washington Consensus policies arranged behind closed doors, as well as US hypocrisy in encouraging restrictive trade policies which prevented Russia from the optimum export of one of its main products, aluminium. Such policies are covered in a chapter called "Unfair Trade Practices and Other Mischief." Stiglitz doesn't mention Canada's bad experiences with softwood lumber exports, but the shoe fits.

So, do we abandon economic globalization? Stiglitz notes that it is not helping the world's poor or the environment -- "poverty has soared as incomes have plummeted" (p. 214) -- and he understands the anger of people against the international agencies. But, at the same time, he argues that globalization has brought many benefits, not least the amazing economic growth of the East Asian region, and so to abandon it is neither feasible nor desirable. But globalization needs to be given a human face, to demonstrate a focus on the social consequences of economic policies, to be more open and transparent, and to recognize that there is not just one (US) market model. On this score, Stiglitz actually offers a series of detailed prescriptions for reform of the governance and policies of the international economic agencies which are too detailed to outline here. These prescriptions make sense to me, although a distinguished IMF economist has referred to them as "at best, highly controversial, at worst, snake oil."(1)

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A fascinating book for sociologists, and anti-globalists, no matter what the economic establishment might say.

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Robert M. Pike

(1) Kenneth Rogoff, An Open Letter to Joseph Stiglitz, IMF External Relations Department, July 2, 2002

(2) Fred Rippy, "The British Bondholders and the Roosevelt Corollary of the Munroe Doctrine," Political Science Quarterly, Vol 49, 1934:195-206.

(3) Emily Rosenberg, Financial Missionaries to the World: The Politics and Culture of Dollar Diplomacy. 1900-1930. Cambridge: Harvard University Press, 1999.

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